CalPERS

Investment Office
Memorandum

June 24, 2022

To: CalPERS Board of Administration

From: Private Equity

Subject: Background material for July 2022 offsite discussion of the ESG Data Convergence Project (EDCP), featured in presentation titled "Sustainable Investing: Developing an Impact Toolkit for Private Markets"

Investment Belief #3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries[1]

What is the ESG Data Convergence Project?

Founded in 2021, the ESG Data Convergence Project is focused on establishing a common set of ESG metrics to track underlying ESG performance across private equity portfolios. Over time, the EDCP seeks to build a critical mass of standardized, longitudinal ESG data to enable participants to track the evolution of these metrics across their underlying portfolio companies. The organization is supported by a diverse consortium of both GPs (private equity firms), LPs (allocators), and a broad array of industry participants.

CalPERS and Carlyle played a key role in founding the ESG Data Convergence Project, along with a small group of founding GPs and LPs. All founding GPs are key partners within the CalPERS private equity portfolio. The EDCP launched with the goal of expanding from the initial seven GPs to 20 GPs over the first few years. The traction has greatly exceeded our initial expectations with the EDCP now having around 200 participants representing nearly $22T in AUM. Participation in the EDCP has been rapid and broad representing making the EDCP the largest coordinated action to align on common ESG metrics within the private equity industry.

What is the purpose of the ESG Data Convergence Project?

The EDCP seeks to establish a set of standardized ESG metrics to establish comparable, longitudinal data on ESG factors. The project was founded on four key insights:

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[1] See CalPERS' Investment Beliefs, page # 6

1. **ESG Data is a Mess.** LPs cannot see standardized, comparable data across their PE portfolios. GPs are struggling to keep pace with a mounting volume of ESG data requests. Portfolio companies are at a loss in navigating an increasing complex set of ESG frameworks. Broad-based, comparable data on ESG performance in private markets does not exist.
2. **The Market is Splintered.** The problem of measurement of ESG factors has largely been addressed. In fact, numerous ESG measurement frameworks exist leading to a lack of critical mass and meaningful data in any one framework.
3. **Convergence is Key.** If GPs and LPs converge on a small set of ESG metrics from leading frameworks and track these metrics using the same definitions, we can build a critical mass of standardized, longitudinal data to track ESG performance over time.
4. **Collaboration is the Path Forward**. The initial founding members selected six ESG categories—GHG Emissions, Renewable energy, Diversity, Work safety, Employment, and Employee engagement—drawn from existing frameworks. This initial group has now grown to over 120 participants representing nearly $10T in AUM representing the largest convergence of ESG metrics across the private equity industry.

The goals of the ESG Data Convergence Project include:

- Building a critical mass of standardized, longitudinal ESG data in private equity
- Driving a deeper understanding by LPs and GPs of the ESG performance of their private equity portfolios
- Leveraging clear measurement and data along with the LP and GP investment toolkits to drive long-term improvement on ESG factors
- Providing an effective on-ramp to LPs and GPs who, while less sophisticated on the integration of ESG factors, are hungry to improve

What is CalPERS' involvement with the ESG Data Convergence Project?

CalPERS Board's leadership in and prioritization of ESG provided the foundation for this project. From that base of support, we sought to engage ESG within private equity in a way that could be impactful not only for CalPERS but for the broader private equity industry. This led to our close collaboration with Carlyle to create, found, launch, and scale the ESG Data Convergence Project, along with a small group of other LPs and GPs. CalPERS is deeply integrated in all aspects of the project. Julia Jaskolska, of the CalPERS Private Equity team, has taken a lead role in the formation and on-going development of the EDCP, with critical engagement across the CalPERS team including Nelson da Conceicao (TLPMI) and Travis Antoniono (BGS). Marcie Frost, whose support throughout fundamentally enabled this project, provided her insights in the EDCP's initial press release:

"This initiative simplifies sustainability reporting by using comparable metrics which allow us to gain insight into the investment risks and opportunities in our private markets portfolio. Managing these risks and opportunities is essential to fulfilling our fiduciary duty to provide

retirement security to our 2 million members. Collaboration between the GP and LP community is the foundation, and we look forward to building out this important work."

What are the challenges that the ESG Data Convergence Project must address?

Common obstacles to improvement across ESG factors include:

1. Lacking an entry point. Limited awareness and understanding of how to get started
2. Complexity. Too many ESG frameworks with too many metrics
3. Data. No standardized, comparable data preventing measurement of ESG factors
4. Collaboration. Limited collaboration has prevented critical mass of ESG data

The ESG Data Convergence Project was designed to address these challenges head on. Data is central to our approach. Data will enable LPs and GPs to better understand the ESG performance of their underlying portfolio companies. This transparency will drive focus and sharing of best practices to ultimately improve ESG performance along with the financial performance of private equity portfolios. This is a long-term project that is oriented to driving lasting change and, while we aim to drive consistent progress, we do not expect quick wins.